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Project Report

VIABILITY STUDY OF THE RURAL HOTEL INDUSTRY IN SASKATCHEWAN

Prepared for

Saskatchewan Liquor Board
Regina, Saskatchewan

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August 31, 1987
3024/89/dg

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I

INTRODUCTION

Our mandate was to examine the viability of Saskatchewans rural hotels.

The Hotels Association of Saskatchewan (HAS) has asserted that the hotel industry in rural Saskatchewan is in peril. The Saskatchewan Liquor Board shared the concerns about the rural hotel industry but differed with HAS as to the root causes. In addition major changes to the Saskatchewan Liquor Act were being contemplated. In order to provide an accurate assessment of the rural hotel industry, a study was commissioned.

The study is confined to an examination of rural hotels in Saskatchewan. The study team was mandated to explore all significant trends, constraints and opportunities as they applied to rural hotels. In order to put the rural hotel industry in context, the study also examined urban hotels, the hotel industry in other provinces as well as relevant legislation in other provinces.

The study began on January 12, 1987 and ended on June 30, 1987.

The terms of reference for the study were circulated in early September, 1986. Following a competition, the study was awarded to the joint venture team of Stevenson Kellogg Ernst & Whinney and Derek Murray Consulting and Associates in early January of 1987. Initial client/consultant meetings were held to clarify the terms of reference and the required study outcomes. During February and March the study team ordered data from Statistics Canada, prepared a socio-demographic profile of Saskatchewan's rural communities and attended regional meetings of the HAS. The study team made a presentation at the annual general meeting of HAS on March 25. A survey was sent to every hotel in mid April with a return date of May 8. Throughout May the survey data was analyzed and compared with other data sources. The conclusions were reached in early June and a process of client consultations were carried out to guide the formulation of recommendations.

The final report is organized into ten major chapters.

These chapters are:

I	INTRODUCTION
II	METHODOLOGY
III	HOTEL INDUSTRY PROFILE
IV	SALES AND CONSUMPTION PATTERNS
V	SPECIAL PERMITS
VI	DEMOGRAPHIC AND ECONOMIC TRENDS IN RURAL SASKATCHEWAN
VII	THE NEED FOR INDUSTRY DIVERSIFICATION
VIII	POTENTIAL TOURISM MARKETS
IX	POTENTIAL NEW REVENUE SOURCES FROM LOCAL MARKETS
X	CONCLUSIONS AND RECOMMENDATIONS

There are two reports; an executive summary report and the final report.

II

METHODOLOGY - WHAT WE DID

A. REQUIRED OUTCOMES AND OBJECTIVES

The main purpose of the study was to assess the viability of the rural hotel industry. The viability assessment was composed of several key research questions:

- What is the current profile of the rural hotel industry and how has it changed over the last five years?
- What are the main factors contributing to changes in the industry?
- What are the market trends for the rural hotel?
- What are the main sources of competition for the rural hotel?
- What specific regulations help or hinder the rural hotel?

These and other research questions were compiled into four basic required outcomes.

1. Provide an analysis and profile of the rural hotel industry in Saskatchewan.
2. Identify the environmental factors and their related effect on the operations of Saskatchewan's rural hotels.
3. Assess the current financial viability of the rural hotel industry.
4. Identify recommendations to enhance the viability of rural hotels.

B. DATA BASE DEVELOPMENT

The data base compiled to support the analysis of the hotel industry and its viability consisted of the integration of four main sources of data. These were:

1. **The Saskatchewan Liquor Board Company - sources included:**

   - The Master File Listing.
   - The Saskatchewan Brewer's Association Consignee Purchase Record.
   - The General Ledger System Trial Balance Listing of Sale of Wine and Spirits to Licensees through Liquor Board Stores.
   - The General Ledger System Trial Balance Listing of Sales of Wine and Spirits to Licensees through special vendors.

2. **Statistics Canada - sources included:**

   - A special merge of the Corporate Tax file data base and relevant portions of the Travel Accommodation Survey.
   - The urban FSA and Rural Postal Code Summary Data.

3. **Compusearch - Consumer Spending Potential Data Base.**

4. **Derek Murray Consulting Associates - Province-wide hotel survey of the entire hotel industry.**

These diverse sources of information provided the data integrity and detail necessary for our analysis. Following is an outline of the material obtained from each of these sources.

1. **The Saskatchewan Liquor Board Master Listing:**

This data base provided information regarding:

   - Whether or not the operation provides entertainment; is seasonal or has an off-sale license.
   - The number and types of license held by the operator.
   - Various identifiers such as consignee number and legal name.

1.1 The Saskatchewan Brewer's Association Consignee Purchase Record.

This purchase record revealed, for each licensee purchasing beer through the Saskatchewan Brewer's Association, the number of converted cases and half kegs purchased as well as the total licensee payment for 1986.

1.2 The General Ledger system trial balance.

This trial balance listing reveals the total expenditure by each licensee on purchases of wine and spirits made through liquor board stores and the total expenditure by each licensee on purchases of wine and spirits made through special vendors.

The last two sources identified above provided a check against the expenditure data received from the hotel industry through the province-wide survey to be discussed below.

2. Statistics Canada

a) A special merge of the Corporate Tax file data base with relevant portions of the Travel Accommodation Survey.

Upon initiation of the study, a special run entailing a merge of the Saskatchewan hotel data located on the Corporate Tax file data base with relevant portions of the Travel Accommodation Survey was requested of Statistics Canada's Ottawa office. This merge provided us with the following information:

- Total wages and salaries paid to employees.
- Total management salaries paid.
- Gross profit.
- Net income.
- Federal tax payable.
- Provincial tax payable.
- Dividend refund.
- Number of full time and part time employees.

- Total gross revenues.
- Room revenue.
- Food revenue.
- Alcohol revenue.
- Revenue from miscellaneous sources.

This information was obtained at an aggregate level for Saskatchewan as well as disaggregated using the following criteria:

- For hotels.
- For motels.
- By provision of food and alcoholic services.
- By business location
  - downtown
  - suburban
  - urban
  - rural
- By age of facility.
- By whether or not renovations were carried out in the past five years.
- For varying sizes of communities with respect to the number of taxfilers
  - less than 201
  - 201 to 500
  - 501 to 1,000
  - 1,001 to 2,000
  - 2,001 to 5,000
  - 5,001 to 10,000
  - over 100,000

This data was made available for both 1982 and 1984.

b. The Urban Forward Sortation Area (FSA) and Rural Postal Code Summary Data

The Urban FSA and Rural postal code summary data yielded the number of taxfilers residing in every community in the province. Knowledge of the number of taxfilers in certain areas provides an indication of the population of the community at or over the legal drinking age - a figure which corresponds to the potential local market size for the hotel. Further, the median income, and the percentage change in that income over the past five years in each community provided an accurate portrayal of the spending potential market size for the hotel. The median income, and the percentage change in that income over the past five years in each community provided an accurate portrayal of the spending potential surrounding each hotel and the direction in which that potential has been moving.

3) Compusearch - Consumer spending potential data base

The third source consulted was Compusearch, Canada's premiere data base and market research firm. Compusearch contributed total and average household expenditure on alcohol figures by postal code region of the province, not only in aggregate terms, but also analyzed with respect to on-premises versus off-premises consumption.

4) Province-wide hotel survey

The province-wide survey of the hotel industry conducted by Derek Murray Consulting Associates was the final source of data. This survey, which was administered to every hotel in the province, resulted in a 32% response rate which is considered high. Consequently, a wealth of information was obtained regarding the industry. The questions asked ranged from those pertaining to financial and employment data, to attitudinal data related to the Liquor Act and perceived market threats. A copy of the questionnaire is appended.

The benefit of such an integrated data source became obvious. Industry revenue figures provided by the proprietary survey were matched with Statistics Canada's data. The blending of the five data sources resulted in a startlingly clear and accurate base from which to mount an assessment of the industry.

The fact that multiple sources of data were used for the analysis proved beneficial in a number of ways.

In compiling our proprietory data base, we found revenues and expenditures for certain items, when matched, to be unreasonable. By relying on our other data sources, we were able to correct for these deviances.

Problems also existed with time-series data related to revenues and expenses. For example, a good response rate existed related to 1986 figures but as we approached 1982 data, this rate fell off somewhat. Alterations for certain calculations were necessary in order to accomodate this decrease in respondents while still maintaining data integrity.

III

HOTEL INDUSTRY PROFILE

The Saskatchewan hotel industry consists of 534 hotels located throughout the province. The province's hotel plant, however, has varying degrees of representation across community size. The distribution is as follows:

EXHIBIT III-1
Distribution of Saskatchewan hotels in Saskatchewan's community structure

Population Classification	Number Of Communities	Number of Licensed Hotels
Cities	13	90
3,000-5,000	8	23
1000-3,000	45	43
Below 1,000 in pop.	449	378
Total	515	534

The average hotel in the province has been under its current ownership for six years. Average years of ownership varies somewhat, however, depending on the size of community in which the operation is located.

EXHIBIT III-2
Years under current ownership - by community size

Community Size by Taxfilers	Years Under Current Ownership
0-200 Taxfilers	6.0 years
201-500	6.2 years
501-1,000	4.5 years
1,001-2,000	4.7 years
2,001-5,000	6.8 years
5,001-10,000	12.8 years
over 10,000	7.9 years

In as much as consistent terms of management lend stability to an operation, hotels in larger-size communities seem to be better positioned.

The number of rooms maintained by a given hotel also depends greatly on the size of community in which the facility is located.

EXHIBIT III-3
Average number of rooms - by community size

Community Size by Taxfilers	Average Number of Rooms
1-200 Taxfilers	7
201-500	8
501-1,000	11
1,001-2,000	17
2,001-5,000	30
5,001-10,000	39
over 10,000	80

Just as the number of rooms varies by community size, so does the utilization of these hotels' accommodation capacity. Occupancy rates range from only 9.8% in communities of less than 201 taxfilers, to 54.9% in communities consisting of over 10,000 taxfilers.

EXHIBIT III-4
Hotel occupancy rates by community size

1-200 Taxfilers	9.8%
201-500	10.3%
501-1,000	20.6%
1,001-2,000	27.5%
2,001-5,000	27.7%
5,001-10,000	47.0%
over 10,000	54.9%

Clearly hotels located in smaller communities do not rely heavily on room rental for revenue.

Seven hotel services were identified in the survey conducted by the study team.

These include:

Dining room
Beverage room
Cocktail room
Live entertainment
Large screen television
Special events (buffets, sports, etc.)
Outdoor beverage patio

EXHIBIT III-5
Service profile of hotels

Community Size By Number of Taxfilers	% OF RESPONDENTS REPORTING						
	Dining Room	Beverage Room	Cocktail Room	Live Entertainment	Big Screen T.V.	Special Events	Outdoor Patio
0-200	23.4%	100.0%	2.1%	14.9%	17.0%	36.2%	31.9%
201-500	18.2%	97.7%	0%	29.5%	15.9%	31.8%	13.6%
501-1,000	37.9%	96.6%	6.9%	34.5%	31.0%	65.5%	20.7%
1,001-2000	52.4%	100.0%	14.3%	47.6%	47.6%	52.4%	19.0%
2,001-5,000	80.0%	90.0%	10.0%	60.0%	90.0%	90.0%	10.0%
5,001-10,000	40.0%	80.0%	20.0%	60.0%	40.0%	60.0%	0%
10,000 plus	83.3%	91.7%	50.0%	33.3%	66.7%	75.0%	25.0%

As is evidenced in the exhibit above, the larger the community in which a hotel is located, the greater the level of service which is provided. This is particularly true in terms of dining rooms, big screen televisions, and special events.

The hotel industry in the province was reported to have employment of 8,350 people in 1984. The number of employees per hotel, and the ratio of full time to part-time employment varies by community size.

EXHIBIT III-6
1984 wages and salaries

Community Size by Taxfilers	Wages and Salaries per Hotel	Wages and Salaries per Employee*
0-200	$ 28,111	$7,461
201-500	N/A	N/A
501-1,000	N/A	N/A
1,001-2,000	111,891	8,922
2,001-5,000	143,978	9,556
5,001-10,000	239,875	8,981
over 10,000	571,651	9,703

* Includes both full-time and part-time employees.

Source: Statistics Canada - Traveller Accommodation Survey.

A relatively high percentage of facilities, regardless of the size of community in which they are located, have renovated since 1982. The percentages are as follows:

EXHIBIT III-7
Hotels that have renovated in the last five years

Community size By Taxfilers	Percentage Renovating
0-200	83.0%
201-500	81.8
501-1,000	72.4
1,001-10,000	81.0
2,001-5,000	90.0
5,001-10,000	100.0
over 10,000	91.7

The survey of the province's hotel industry also identified several types of renovations including adding or upgrading screens, dining facilities, bar/lounge facilities, washrooms, as well as 'other' aspects of the facility. The breakdown of average expenditures on renovations, for those carrying out a particular type of renovation are as follows:

EXHIBIT III-8
Average expenditure on renovations
1982-1987

Community Size by Taxfilers	Renovation Type: Add Rooms	Upgrade Rooms	Add Dining Facilities	Upgrade Dining Facilities	Add Bar/Lounge	Upgrade Bar/Lounge	Add Washroom	Upgrade Washroom	OTHER
0-200	$ 4,000.00	$ 4,560.02	$ N/A	$ 9,357.14	$ 2,500	$ 10,553.35	$ 1,000	$ 2,865.03	$ 14,990.24
201-500	3,625.00	4,852.24	16,500.00	5,500.00	12,800	11,969.23	N/A	2,042.86	10,640.00
501-1000	N/A	14,594.77	5,820.25	7,000.00	N/A	13,450.00	N/A	2,300.00	98,708.33
1,001-2,000	N/A	5,672.73	4,000.00	16,133.00	N/A	21,122.00	17,500	2,785.71	9,744.30
2,001-5,000	N/A	21,285.71	79,000.00	13,600.00	116,000	16,200.00	N/A	5,500.00	29,285.71
5,001-10,000	N/A	22,250.00	N/A	10,000.00	N/A	58,250.00	N/A	2,566.67	65,500.00
over 10,000	500,000.00	103,200.00	40,000.00	66,666.67	115,000	133,333.33	N/A	12,000.00	407,142.86

Saskatchewan's hotels also contribute directly to the local tax base.

EXHIBIT III-9
Average business and property tax paid by hotels

Community Size by Taxfilers	Average Business and Property, Tax Paid
0-200 Taxfilers	$ 3,595
200-501	3,600
500-1,001	8,121
1,000-2,000	15,506
Over 2,001	49,761

The liquor consumption tax is submitted by the hotelier, who acts as an agent for the collection of this direct tax imposed by the province. Average liquor consumption tax submissions, on the basis of community size, are as follows:

EXHIBIT III-10
Average liquor consumption tax by community size

Community Size by Taxfilers	Average Liquor Consumption Tax Submission (1986)
0-200 Taxfilers	$11,552.15
201-500	19,376.47
501-1,000	26,924.18
1,001-2,000	35,624.05
Over 2,001	80,823.00

The hotel industry in the province also has an impact on both provincial and federal corporate income tax.

The net income before tax can be examined, on an average basis, by community size.

EXHIBIT III-11
Average net income for tax purposes - 1984

Community size by Taxfilers	Average net income for Tax Purposes
0-200 Taxfilers	1,121
201-500	N/A
501-1,000	2,323
1,001-2,000	N/A
2,001-5,000	20,843
5,001-10,000	20,190
over 10,000	(20,487)

Source: Statistics Canada Traveller Accommodation Survey merged with Corporate tax files.

The province's hotels contribute a substantial amount of tax revenue to the federal government. Part 1 Federal Corporate Tax on taxable income appeared as follows in 1982.

EXHIBIT III-12
Federal corporate tax payable on taxable income by hotels

Community Size by Taxfilers	Average Tax Paid
0-200 Taxfilers	1,323.53
201-500	1,205.13
501-1,000	1,161.29
1,001-2,000	2,500.00
2,001-5,000	3,250.00
5,001-10,000	5,190.48
over 10,000	14,480.00

Source: Statistics Canada Traveller Accommodation Survey merged with Corporate tax files.

The preceding information presents an quantitative view of the hotel industry in Saskatchewan. Existing attitudes and perceptions on the part of the industry form an important part of this profile as well.

As a result of the extensive interviews carried out with industry members, their priorities for changes to current regulations were determined. The following is a list of suggested changes and the percentage of the industry which priorized them first, second, or third with respect to their perceptions of importance.

EXHIBIT III-13
Priorization of changes to current liquor regulation (province wide)

Suggested Change	Percentage Indicating First Priority	Second Priority	Third Priority
► A wholesale price of beer with a fixed retail selling price	36.0%	21.3%	16.0%
► Liquor off-sale	12.2%	19.5%	19.1%
► Sunday opening	4.3%	3.7%	9.3%
► The calculation of liquor consumption tax at the point of purchase	37.2%	25.6%	15.4%
► A limitation to the number of special occasion permits	4.9%	14.6%	14.2%
► Sale of canned beer exclusive to off-sale	0.5%	1.2%	4.9%
► Reduce costs of liability/ property insurance	4.9%	14.1%	21.1%

In other words, the re-calculation of Liquor Consumption Tax to the point-of-purchase was selected as a first priority charge by 37.2% of the hoteliers interviewed.

The above chart, assesses attitudes harboured by the entire hotel industry. It is useful however, to examine the change in priorities exhibited by hoteliers in rural areas. A cut off point of communities containing 500 or less taxfilers was chosen for this analysis.

EXHIBIT III-14
Priorization of changes to current liquor regulation
(Hoteliers located in communities of 500 or less Taxfilers)

Suggested Change	Percentage Indicating First Priority	Second Priority	Third Priority
► A wholesale price of beer with a fixed retail selling price	38.2%	19.1%	17.1%
► Liquor off-sale	11.2%	21.3%	22.7%
► Sunday opening	4.5%	2.2%	10.3%
► The calculation of liquor consumption tax at the point of purchase	37.1%	27.0%	12.5%
► A limitation to the number of special occasion permits	1.1%	12.4%	11.4%
► Sale of canned beer exclusive to off-sale	1.1%	1.1%	5.7%
► Reduce costs of liability/ property insurance	6.8%	16.9%	20.5%

Small differences in opinion exist between the rural group and the entire province. The main difference was a slightly greater concern for a wholesale price of beer with a fixed retail selling price, as well, a fair reduction in tax cost of liability/property insurance.

Hoteliers were also asked to comment on their level of satisfaction/dissatisfaction with the Hotel Association of Saskatchewan; Liquor Inspection service; content of special occasion sale permits; policy of premises; and police opponent of .08 laws. The scale was as follows:

1- very satisfied
2- pleased
3- okay
4- dissatisfied
5- very dissatisfied

The average rating of the various items, using the one to five scale, is in the following exhibits.

EXHIBIT III-15
Satisfaction rating of selected items by all hoteliers

	Average Rating
Hotel Association of Saskatchewan	2.30
Liquor Inspection Service	2.02
Control of special occasion site permits	4.34
Policing of premises	2.74
Police enforcement of .08 laws	3.17

The previous exhibit again relates to the attitudes of the province as a whole. The following exhibit assesses the satisfaction level of the rural hotelier located in communities of 500 taxfilers or less.

EXHIBIT III-16
Satisfaction rating of selected items by hoteliers in communities with less than 500 taxfilers

	Average Rating
Hotel Association of Saskatchewan	2.35
Liquor Inspection Service	1.86
Control of special occasion site permits	4.04
Policing of premises	2.55
Police enforcement of .08 laws	3.15

IV

SALES AND CONSUMPTION PATTERNS

It is generally known that the per capita consumption of alcohol is declining both in Saskatchewan and in Canada. Recent sales statistics from the Saskatchewan Liquor Board and Statistics Canada confirm the trend.

EXHIBIT IV-1
Sales of alcoholic beverages by volume and per capita (15 years and over) fiscal years ending March 3, 1981 to 1985.

1981	1982	1983	1984	1985	
Litres per capita					
135.8	126.0	135.5	129.5	131.9	Newfoundland
115.6	105.4	111.6	107.2	108.1	Prince Edward Island
115.1	111.8	109.5	108.8	110.9	Nova Scotia
118.4	112.2	111.8	107.2	106.7	New Brunswick
135.5	132.7	125.4	127.0	125.1	Quebec
134.4	132.9	131.7	130.6	127.4	Ontario
125.1	120.5	119.3	121.6	124.6	Manitoba
115.2	**106.3**	**103.5**	**104.8**	**105.7**	**Saskatchewan**
94.7	133.2	129.3	126.3	123.3	Alberta
124.5	139.7	135.7	130.6	131.9	British Columbia
279.3	230.8	232.1	222.2	223.3	Yukon
134.1	135.5	137.3	143.6	147.2	Northwest Territories
127.8	130.9	127.4	126.5	125.0	TOTAL

Source: Statistics Canada, 1986.

Since 1981 in Canada, there has been a 2.2% decrease in the sales of alcoholic beverages by volume on a per capita basis. While sales in Saskatchewan have dropped 8.2% for the same period on per capita volume basis. The decrease per capita in Saskatchewan is the 2nd largest decrease in volume sales per capita in Canada behind New Brunswick.

Saskatchewan when compared on sales per capita (15 years and over) with the rest of Canada ranks last.

EXHIBIT IV-2
Sales per capita (15 years and over)
Fiscal 1985

Rank		Litres per Capita
1	Yukon	223.3
2	Northwest Territories	147.2
3	Newfoundland	131.9
4	British Columbia	131.9
5	Ontario	127.4
6	Quebec	125.1
7	Manitoba	124.6
8	Alberta	123.3
9	Nova Scotia	110.9
10	Prince Edward Island	108.1
11	New Brunswick	106.7
12	Saskatchewan	105.7

Source: Statistics Canada, 1986.

The average expenditure per household on alcoholic beverages shows that Saskatchewan households spend less than those in other provinces.

EXHIBIT IV-3
Average household expenditure on alcoholic beverages
1984 Family Expenditure Survey (Famex)(in dollars)

	Winnipeg	Regina	Saskatoon	Calgary	Edmonton
Alcoholic beverages	623	494	593	792	660
Licensed premises	257	166	255	312	278
Purchased from stores	365	328	338	486	382

Average for Canada	610
Licensed Premises	201
Purchased from Stores	408

Source: Statistics Canada, 1986.

The total market in Saskatchewan for alcoholic beverages can be determined by using the 10% Liquor Consumption Tax as a factor to calculate the total expenditure on this basis give a much higher average annual expenditure.

EXHIBIT IV-4
Expenditure per household on alcohol
1982-86

	Liquor[1] Consumption Tax	Total[2] Expenditure on Alcohol In Saskatchewan*	Expenditure[3] per Household
1982-1983	36,793,258	404,723,000	1,216.40[4]
1983-1984	41,359,579	454,949,000	1,367.64[4]
1984-1985	45,059,977	495,649,000	1,374.51[5]
1985-1986	44,500,649	489,500,000	1,357.45[5]

1 Liquor Consumption tax collected for each year Saskatchewan Department of Finance.

2 Derived by factoring Liquor Consumption Tax by 110%.

3 Derived by dividing total expenditure by total number of households in Saskatchewan.

4 Households in Saskatchewan 1981 - 332,715.

5 Households in Saskatchewan 1986 - 360,592.

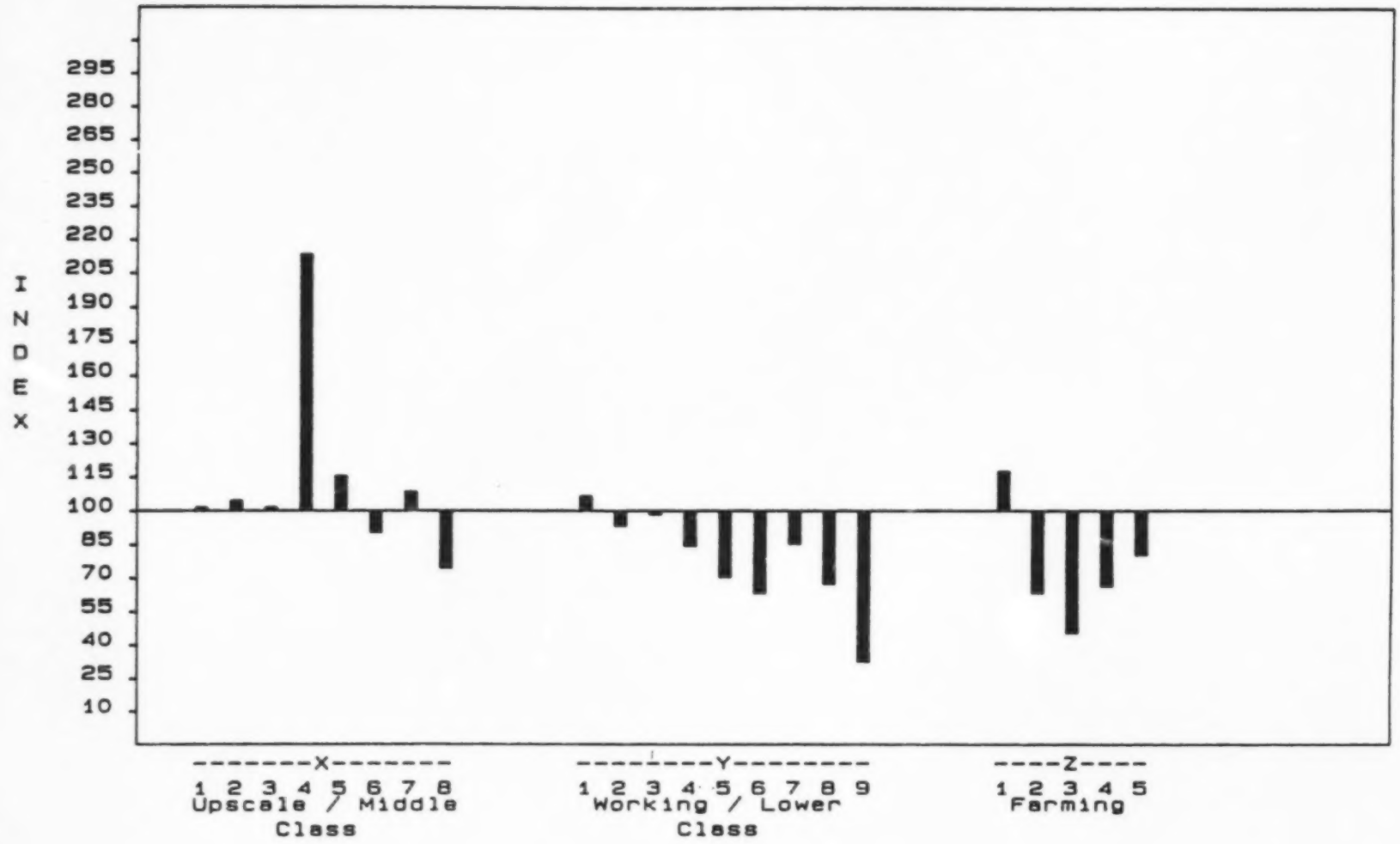
The difference between the household expenditure estimates from Statistics Canada and the estimates based on the Liquor Consumption Tax is significant. However, the Statistics Canada estimates are based on the "Family Expenditure Survey, 1985" known as Famex. Famex collects details on household expenditures by asking selected households to keep a diary of all expenditures. All of the diaries are collated and tabulated and results are expressed for Canada and individual cities. While the relationship of one expense item to another is generally accurate, the total expenditure is often understated. The usual understatement coupled with a reluctance, by consumers, to describe their alcohol consumption results in the large difference between the Famex average expenditure on alcohol and the average derived using the Liquor Consumption Tax calculations.

Using Famex and 1981 census figures with geo-coding by postal districts, the Compusearch data base presents an interesting comparison of urban and rural expenditure on alcohol. Compusearch indicates that a significant portion of rural Saskatchewan spends less than the average household expenditure on alcohol. Exhibit IV-5 presents a comparison of the expenditure potential by lifestyle cluster in urban and rural Saskatchewan. An explanation of the "lifestyle" clusters is in the appendices. Using 100 as the index for the average household expenditure on alcohol, the Compusearch graphs indicates that most rural lifestyle clusters spend less than both their urban counterparts and less than the provincial household average. Recognizing the decline in net farm income over the last five years, the data suggests that the market for the sale of alcoholic beverages in rural Saskatchewan is constrainted.

We conclude that the per capita consumption of alcohol is declining in Saskatchewan. Further we believe that the average household expenditure on alcohol is significantly less in rural Saskatchewan when compared to urban households and the Canadian household average.

SASKATCHEWAN ALCOHOLIC BEVERAGES SALES POTENTIAL

Rural Lifestyle Penetration Indices



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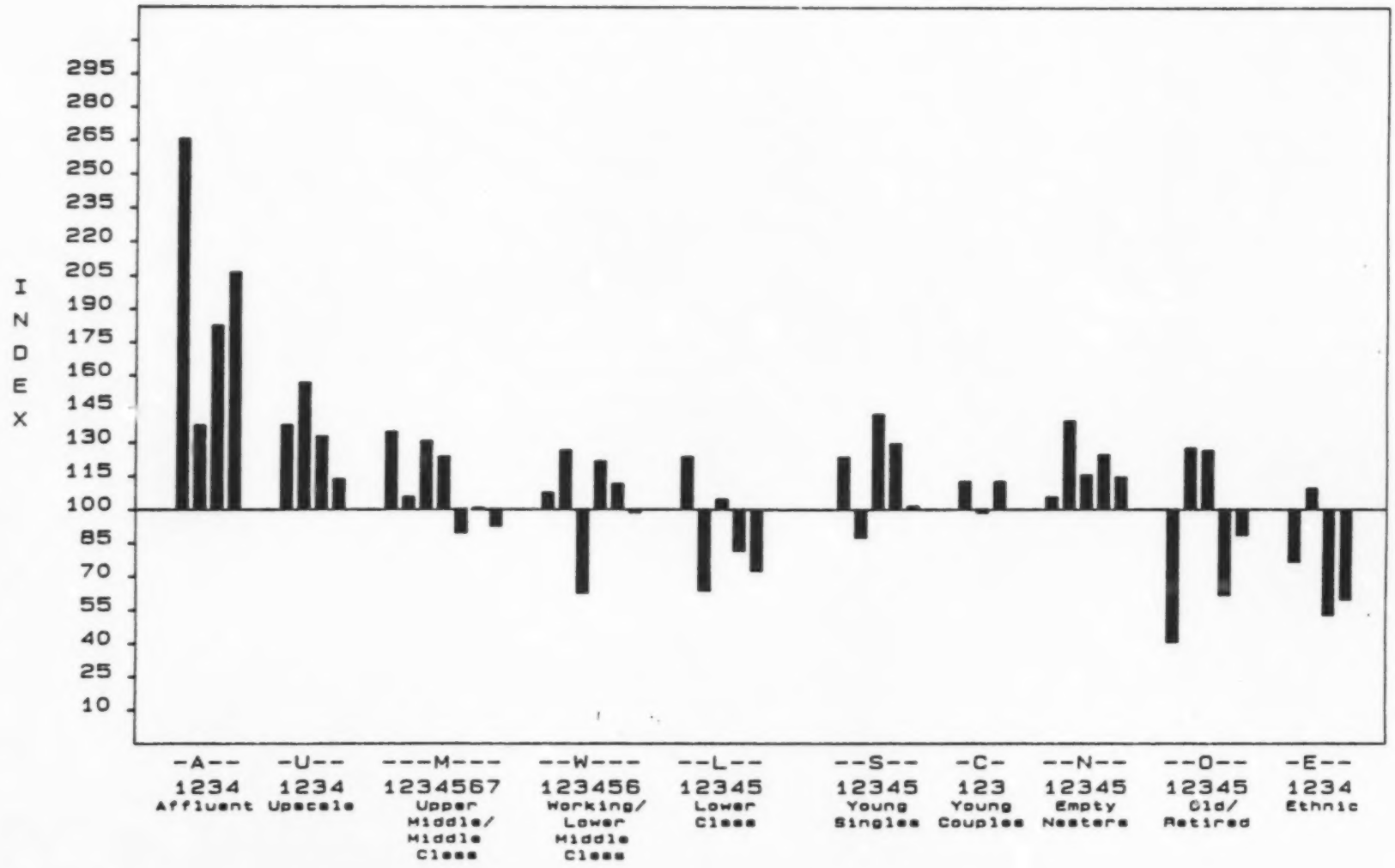
SASKATCHEWAN ALCOHOLIC BEVERAGES SALES POTENTIAL

Urban Lifestyle Penetration Indices



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V

SPECIAL PERMITS

The Saskatchewan Liquor Act allows groups and individuals to serve alcohol under special permits issued at Liquor Board Stores and special vendors across the province. There are three types of permits; special occasion non-sale permits, special occasion sale permits and community events permits. Although there are a variety of regulations governing the various permits, enforcement can be difficult. For example, registered non-profit associations are eligible for special occasion permits however, there is no mechanism in place to guaranty that an applicant is a non-profit association.

Many rural hoteliers suggest that there is wide spread abuse of special occasion permits. In fact permit holders by their very nature are exempt from many of the current liquor regulations. However, they are not exempt from laws governing over-serving of alcohol, serving alcohol to minors and serving after hours. We suspect that some special occasion sale permit holders are guilty of these and other infractions.

The issue most germane to this study concerns the market share held by special occasion sale permits. Hotels, particularly in smaller communities are often in competition with local service clubs for the same market. The current rules favor the special occasion sale permit holder. For example, the licensed beverage room operator must charge a 10% liquor consumption tax on the retail price of a drink while the sale permit holder pays the liquor consumption tax on the Saskatchewan Liquor Board sale price. The result is a higher price for alcoholic beverages in licensed premises.

The nature of the competition provided by sale permit holders can be at least partly described by examining two trends; the number of sale permits issued and the dollar value of the sale permit share of the market.

Exhibit V-1 shows that over the five year period ending March 31, 1986, the number of special occasion sale permits issued has declined by 2%. There was a total of 31,089 of all types of permits issued in 1985-1986 and sale permits represent 58.3% of that total.

EXHIBIT V-1
5 year comparison of special permits

Type of permit	1981-82	1982-83	1983-84	1984-85	1985-86	%
Non-sale	12,208	12,175	12,694	12,490	12,496	2.4%
Sale	18,480	19,458	18,217	18,112	12,113	(-2)%
Community events	248	295	332	438	480	93.5%
Total	30,936	21,928	31,243	31,040	31,089	.5%

Source: Saskatchewan Liquor Board.

Exhibit V-2 shows the purchases by source from the Saskatchewan Liquor Board. Unfortunately, it was impossible to break out the purchases by sale versus non-sale permits. Similarly, the "licensees" category includes hotels as well as licensed restaurants, and non-hotel cocktail lounges. In terms of the dollar value of purchases the total liquor purchase by licensees has risen 7.8% over the five years ending March 31, 1986 while the value of purchases by permit holders has declined by 7.7% over the same period. The total 1985-1986 purchase by permit holders of $9,333,079 includes both sale and non-sale permits. Although 58% of all permits were sale permits, we believe, that sale permits account for more than 58% of permit holders total purchase. While it is impossible to give an accurate citation, the study team estimates that sale permits account for 70% of all permit holder purchases or approximately $6.5 million in province wide purchase. There are no records which sum permits by location but the study team believes that more than half of the $6.5 million is attributable to the major cities. The sale permits balance or about $3 million is purchased by sale permit holders in communities with less than 10,000 tax files.

We conclude that overall special occasion sale permits are not a significant threat to the viability of rural hotels. However, the market for rural hotels is narrow so any competition can cause a revenue decline. We believe that individual hoteliers can overcome any competition from sale permits by a combination of good marketing and good community relations. There are many instances where the hotelier and local service club work together on special occasions. In fact the hotelier having both the expertise and experience in serving alcohol, can provide a real service to holders of special occasion sale permits.

EXHIBIT V-2
$ value of purchases from Saskatchewan Liquor Board by licensees, permits and community events

Year		Beer	Wine & Spirits	Total	Total%Change By Catagory Over Previous Year
81-82	Licensees	74,871,930	18,690,837	93,562,767	
	Permits	2,604,559	7,510,955	10,115,514	
	Community events	433,130	--	433,130	
82-83	Licensees	68,507,371	21,720,003	90,209,374	(3.584)%
	Permits	2,609,053	8,377,406	10,986,459	8.6%
	Community events	421,643	--	421,643	(2.7)%
83-84	Licensees	74,395,644	20,697,073	95,092,717	5.4%
	Permits	3,101,460	8,493,708	11,595,168	5.4%
	Community events	406,091	--	406,091	(3.7)%
84-85	Licensees	77,269,864	21,333,292	98,603,156	3.7%
	Permits	3,243,853	7,837,184	11,081,035	(4.4)%
	Community events	413,427	--	413,427	1.8%
85-86	Licensees	80,480,926	20,422,077	100,903,003	2.3%
	Permits	2,641,043	6,692,036	9,333,079	2.3%
	Community events	405,377	--	405,377	1.9%
			% Change 81-86	Licensees	7.8%
				Permits	(7.7)%
				Community events	(6.4)%

Note: Permits include both sale and non-sale permits.

VI

DEMOGRAPHIC AND ECONOMIC TRENDS IN RURAL SASKATCHEWAN

A central focus for this study is the viability of Saskatchewan's rural hotel industry. In many ways the rural hotel industry is a reflection of changing demographic and economic circumstances in rural Saskatchewan. This chapter provides an overview of demographic and economic trends in rural Saskatchewan. It attempts to assess how these trends have or could impact on rural hotels and their continued viability.

Saskatchewan's Rural Community structure is characterized by a very large number of small communities where individual community population does not exceed 500 persons.

Saskatchewan's settlement pattern and current community structure is unique in North America. Saskatchewan has more communities or settlements than any other state or province in North America. Saskatchewan has roughly 1,200 communities. However slightly less than half of those communities are incorporated centres. The rest are settlements or hamlets that are located in rural municipalities. To put this in a western context, Saskatchewan has almost 3 times the number of incorporated municipalities as Manitoba, a province with a similar provincial population and almost twice the number of communities as in Alberta:

EXHIBIT VI-1
Incorporated urban municipalities and provincial population Manitoba, Saskatchewan and Alberta, 1982

	Saskatchewan	Manitoba	Alberta
Number of urban municipalities	515	180	265
Provincial population (January, 1982)	988,400	1,034,000	2,212,300
Ratio of population to urban communities	1,919	5,744	8,348

The above exhibit demonstrates that even within the prairies, Saskatchewan is uniquely different than its neighboring provinces. The above exhibit is somewhat deceptive in Saskatchewan's case. The ratio of communities to provincial population suggests an average community population of almost 2,000 people compared to averages of 8,348 and 4,744 for Alberta and Manitoba, respectively. Only 34 Saskatchewan urban municipalities have a population of over 2,000 people. This includes 12 cities and 22 towns. The average community size for the 477 communities below 2,000 in population is actually 425 people. As a result Saskatchewan's community structure is best characterized as a large number of very small communities, where, on average, community population would not exceed 500 people.

Saskatchewan's population has been undergoing an extended period of urbanization since the end of the Second World War.

There are varying definitions as to what describes rural Saskatchewan. Statistics Canada describes the provinces' rural population as farmers and urban communities not exceeding 1,000 people in population. Utilizing this definition the following exhibit indicates that Saskatchewans' rural population has been declining since 1956.

EXHIBIT VI-2
Saskatchewan population, urban and rural, 1956 to 1981

Years	Total Provincial Population	Urban	Rural
1956	880,665	322,003	558,662
1961	925,181	398,091	527,090
1966	955,344	468,327	487,017
1971	926,245	490,635	435,610
1976	921,325	511,330	409,995
1981	968,313	563,166	405,147

Source: Statistics Canada.

In the period 1966 to 1971, Saskatchewan passed from being a predominantly rural province to an urban one. In 1981, 58.2% of the province's population was defined as urban residents compared to 37.7% in 1956.

The longer term trend of decreasing rural population has abated somewhat since 1971.

Although Saskatchewan's rural population has been decreasing since 1956, these are signs that this trend has abated, as shown in the following exhibit.

EXHIBIT VI-3
Percentage changes in Saskatchewan's rural and urban population by five year intervals

	Total Population	Urban	Rural
1956-61	+5.1	+23.6	--5.7
1961-66	+3.3	+17.6	- 7.6
1966-71	-3.0	+ 4.8	-10.6
1971-76	-0.5	+ 4.2	- 5.9
1976-81	+5.1	+10.0	- 1.2

Source: Statistics Canada.

However, caution should be observed in terms of predicting an eventual increase in the province's rural population. The period 1976 to 1981 may have been a temporary slow down in a long term trend of rural depopulation. The largest single loss in rural population occurred during the period 1966 to 1971. This period was marked by severely depressed agricultural income. Saskatchewan, since 1982, has also entered another downward slide in farm net income. The slowing rate of rural depopulation may only be a temporary plateau.

84% of Saskatchewan's rural communities have licensed hotel establishments.

Currently there are 534 licensed hotels in Saskatchewan[1]. The distribution of these facilities throughout Saskatchewan's community structure is shown in the following exhibit.

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1 Saskatchewan Hotels Association

EXHIBIT VI-4
Distribution of Saskatchewan hotels in Saskatchewan's community structure

Population Classification	Number Of Communities	Number of Licensed Hotels
Cities	13	90
3,000-5,000	8	23
1,000-3,000	45	43
Below 1,000 in pop.	449	378
Total	515	534

This exhibit also illustrates that most rural communities have hotels. In fact, 84.2% of the communities below 1,000 people in population have a licensed hotel establishment. Hotels are one of the oldest and most common business enterprises in rural Saskatchewan. However, in most cases these facilities are hotels in name only. They are principally beverage rooms where the sale of alcohol provides a substantial portion of annual operating revenues.

The market base in rural hotels is shrinking.

The following exhibit indicates there has been virtually no population growth in those communities with less than 1,000 in population.

EXHIBIT VI-5
Saskatchewan community structure population 1981 to 1986

Community Size	1981 Population	1986 Population	% Change
Cities	462,487	506,598	9.5%
3,000-5,000	29,598	31,666	7.0%
1,000-3,000	80,776	84,508	4.6%
Under 1,000	54,535	54,225	.5%

Source: Statistics Canada.

Obviously, rural hotels serve the surrounding rural or farm population. However, it is rural municipalities that have suffered the greatest population loss. The population of Saskatchewan's rural municipalities declined from 239,619 persons in 1981 to 231,119 persons in 1986, a population decrease of 3.5%.

Rural hotels are one of the highest generators of sales in the rural community economy.

The following exhibit provides a comparison of the number of outlets and sales for licensed hotel establishments in comparison with other retail businesses located in rural Saskatchewan. This exhibit underlines the importance of licensed hotels to the economy of rural communities. In terms of sales, licensed hotels had the third highest level of all rural retail businesses. In terms of average sales by type of outlet, licensed hotels are exceeded only by motor vehicle dealers and food stores.

EXHIBIT VI-6
Comparison of retail sales by type of business in communities below 1,000 in population

1983

Type of Retail Business	No. of Outlets	Total Sales $000's	Average Sales $000's
Food stores	514	$157,125	$306
Motor vehicle dealers	118	91,297	773
Licensed hotels*	**378**	**92,988**	**246**
Service stations	448	74,785	167
General merchandise	237	61,944	261
Hardware stores	315	47,926	152
Motor vehicle repair shops	424	32,846	78
Drug stores	77	16,655	216
Clothing & dry goods	141	7,807	55
Household furniture & appl.	151	7,239	48
Auto accessories	58	5,075	88
Electric appliance repair shops	48	1,426	30
All other stores	409	22,341	55

* Consultants' Estimate.

Source: Saskatchewan Bureau of Statistics Publication: Retail Trends.

Licensed Hotels are more important to the rural community economy than to larger urban centres.

Exhibit VI-7 indicates that in terms of sales, licensed hotels are comparatively more important to smaller urban centres than to larger centres. For communities under 1,000 in population, licensed hotels generated the third highest level of sales. Whereas with communities of 1,000 or more people, sales by licensed hotels ranked seventh.

The exhibit also shows that average sales increase dramatically from smaller communities to larger ones. This is true for all lines of business.

EXHIBIT VI-7
Comparison of sales by line of business and by community size

1983

	Communities Above 5,000 in Population			1,000-5,000 in Population			Communities Below 1,000 in Population		
	Rank	$000's	Sales	Rank	$000's	Sales	Rank	$000's	Sales
Food stores	1	707,245	2,289	2	175,068	926	1	157,125	306
Motor vehicle dealers	2	654,883	4,145	1	205,576	1,691	2	91,297	773
General merchandise	3	416,016	5,859	6	45,074	673	5	61,944	261
Household furniture & appliance	4	189,583	401	8	24,520	170	9	72,807	55
Service stations	5	167,362	575	3	72,761	391	4	74,785	167
Drug stores	6	162,992	1,164	5	47,781	525	8	16,655	216
Licenced hotels*	**7**	**133,290**	**1,481**	**7**	**33,792**	**512**	**3**	**77,112**	**204**
Auto accessories	8	118,318	924	10	17,583	241	10	5,075	88
Book/stn stores	9	80,847	1,064	12	570	81	11	N/A	N/A
Women's clothing	10	78,982	346	11	5,541	115	12	N/A	N/A
Hardware stores	11	77,275	709	4	59,629	432	6	47,926	152
Motor vehicle repair	12	76,202	209	9	23,020	124	7	32,846	78

*Consultant's estimate.

Source: Saskatchewan Bureau of Statistics Publication: Retail Trade.

Rural communities have experienced the lowest growth in retail sales.

Exhibit VI-8 provides a comparison of retail sales for different sizes of communities. Communities under 1,000 in population show the lowest sales growth over the period 1978 to 1983. An average annual growth rate of only 7.96% in retail sales is actually below the increase in the consumer price index for that period. For most rural merchants, real sales would not have increased, only the cost of goods sold.

Of more concern is the loss of 45.7% of smaller community retail outlets. The period 1978 to 1983 was one of consolidation for Saskatchewan's retail industry. It marked the end of a shopping mall boom, as well as the consolidation of food stores and other types of retail businesses.

EXHIBIT VI-8
Retail sales by size of community

1978 to 1983

	1,000 in Population		1,000 - 5,000		over 5,000	
Year	Outlets	$000's	Outlets	$000's	Outlets	$000's
1983	2,940	527,036	1921	799,599	4,130	3,358,759
1978	4,283	376,965	2,161	516,932	4,292	2,017,285
% change 1978-1983	(45.7%)	39.8%	(11.1%)	54.7%	(3.8%)	66.5%
Ann. average change	(9.14%)	7.96	(2.22%)	10.9%	(.76%)	13.3%

Conclusions

Saskatchewan has a significantly high number of communities for a provincial population of only one million residents. Both Manitoba and Saskatchewan have roughly similar populations, yet Saskatchewan has 515 communities compared to 180 in Manitoba. Over 90% of Saskatchewan's community structure is below a population of 2,000 people. The reason for this dates back to the settlement of the Province and the need for a larger number of agricultural service centres to serve a growing rural population based on an agricultural land boom.

Since the Second World War, Saskatchewan has undergone a continuous period of urbanization. The province's rural population, consisting of farms and communities of under 1,000 people has declined by almost 30%. More recently, the Province has been experiencing a decreasing trend in rural depopulation.

An estimated 70.8% of Saskatchewan's 534 licensed hotels are located in communities below 1,000 in population. These hotels are an important component of the rural community economy. Licensed hotels have the third highest sales of all rural retail businesses, exceeded only by motor vehicle dealers and food stores. Comparatively, rural outlets are more important to the rural community economy than to the urban economy.

Unfortunately, rural hotels face very uncertain market circumstances. A declining rural population continues to shrink the market base for rural hotels. In fact, virtually all rural commercial businesses have been experiencing real declines in sales. This has led to a consolidation of rural commercial services. Over the period 1978 to 1983, the number of rural retail outlets declined by 45%.

VII

THE NEED FOR INDUSTRY DIVERSIFICATION

Rural hotels have been attempting to survive within a shrinking market. Saskatchewan's rural population has declined 34% since 1956 indicating that the average rural hotel has lost over one third of its local customer base in the past twenty years.

While hotel properties in Saskatchewan communities with populations of over 2,000 people have experienced double digit revenue growth in the past several years. Hotels in towns under 1,000 people have, on average, experienced a steady decline in revenues. When inflation is taken into account, rural hotels have experienced double digit revenue declines in real terms in the past several years.

Declining markets and falling revenues have taken their toll on rural hotels. Between 1982 and 1984 the number of hotels in rural Saskatchewan - declined by 8%. Although 84% of Saskatchewan communities under 1,000 in population still have a hotel, the poor viability of many rural hotels can be significantly attributed to the effects of rural depopulation.

The viability of rural hotels has also been adversely affected in recent years by changing patterns of alcohol consumption. Rural hotels in particular are very heavily dependent on alcohol sales as their main revenue source. Most rural hotels derive between 75% to 85% of their total revenues from sale of alcoholic beverages. By way of comparison urban hotels depend on alcoholic beverage sales for about 1/3 to 1/4 of their total revenues.

Many hotels in rural Saskatchewan are almost exclusively beverage rooms and accordingly are overdependent on sales of alcoholic beverages as the major revenue source. Total revenues in these hotels has dropped for several reasons including:

- Large scale reductions in the number of local people due to population declines and a corresponding decline in total expenditure in alcoholic beverages.
- A shift towards greater liquor consumption in the home versus licensed premises due to increasing average age of the population, concerns about drinking and driving, better home entertainment systems, cost considerations and other factors.
- A lack of upgrading of hotel facilities in many cases in spite of the fact that rural hotels are over 1.5 times older on average than hotels in larger urban centres.

In essence the viability problems of rural hotels can be briefly summarized as follows:

- Over dependency on a local market which has declined in population by some 34% in the past 20 years.

- Over-dependency on a single product (sale of alcholoic beverages) for which consumption has been declining on licensed premises.

Rural hotels must begin to offer new products and services as well as look for new markets in order to offset losses in their traditional markets. There are two basic sources of new revenue for rural hotels, they are:

- New services for local markets including buffets, banquets, special events and light housekeeping/bed and breakfast accommodations.

- Packaging of services and attractions appealing to tourists interested in travel experiences in rural Saskatchewan.

VIII

POTENTIAL TOURISM MARKETS

There is a limited but significant potential tourism market which rural hotels might capture. This market consists of about 63,300 adult Canadians seeking pleasure travel experiences which could be found in rural Saskatchewan.[1] These 63,000 Canadian pleasure travellers can be described as follows:

- They consider rural areas to be very important in selecting their vacation destinations.
- They consider local festivals and events, local crafts, local culture and budget accommodation to be important in selecting vacation destinations.
- They consider mountains, lakes and streams, and oceanside to be important in selecting their pleasure travel destinations.
- They have been to Saskatchewan or have future intentions or interest in taking a pleasure trip to Saskatchewan.
- Over 90% of these 63,000 people would take their trip during the months of April through December inclusive.
- Some 12% consider Saskatchewan to be their first priority as a travel destination for their next pleasure trip.
- About one quarter of the market has an income of less than $9,000 per year while 59% has an annual income of between $20,000 and $40,000.
- About 38% of the market is between the age of 20 to 24 while 29% is between the age of 35 to 64.
- 50% of this market lives in Ontario, 21% live in the prairie provinces and 8% lives in British Columbia. In other words 80% of the market lives in Ontario and Western Canada.

Rural hotels generate just under $1.2 million per year in accommodation revenues which represents about 1.9% of their total revenues. The tourist market described above has the potential to generate an additional $2,000,000 in food, beverage and accommodation revenue for rural hotels annually based in the following assumptions:

[1] Canadian Tourism Attitude Motivation Study - 1983 Statistics Canada.

- Achieving an annual market penetration rate of about 12%.
- These guests of rural hotels would have an average length of stay of 5 nights for each guest.
- Rural hotels would charge an average room rate of $26 per night based on single occupancy.
- These guests of rural hotels would generate about 38,000 guest nights per year.
- These guests of rural hotels would generate about $27 per day in expenditures on food and beverage in the hotel.

There are a number of steps rural hotels would need to realize this potential tourism demand. These steps involve both marketing and development initiatives.

Marketing

Rural hotels would need to assemble a program promoting rural hospitality and country inns. This could be most effectively done in conjunction with Saskatchewan Tourism through advertising programs such as its direct mail promotional campaign in Ontario conducted in association with Air Canada.

Development

Rural hoteliers working with the Saskatchewan Hotel Association, The Saskatchewan Farm Vacation Association and Saskatchewan Tourism would need to package local festivals and events, craft fairs, farm vacations and rural sightseeing tours in their local area as pleasure travel attractions to be found in rural Saskatchewan.

Hotels would also need to improve the quality of their rooms and "on-premises amenities" in order to effectively service this tourist market. Exhibit VIII-1 shows that for the most part rural hotels who have recently undertaken renovations have larger revenues and higher gross profits - compared to hotels which have not undertaken renovations recently. The fact that these higher revenues and gross profits have come even with added capital expenditure, indicates there would appear to be sufficient market demand to support these facility improvements.

EXHIBIT VIII-1
Average 1986 revenue comparisons of hotels renovating in the last five years

	Total Industry	No. of Taxfilers	
		1-1,000	1,001 and Over
No renovations	$263,377	$241,621	$ 346,048
Add rooms	547,971	282,565	1,875,000*
Upgrade rooms	499,153	264,411	959,944
Add dining room	848,809	285,488	2,351,000
Upgrade dining room	722,296	286,491	1,029,923
Add bar	892,825	205,907	2,094,931
Upgrade bar	588,317	249,489	1,322,445

* Based on one record only

Source: Proprietary data base.

IX

POTENTIAL NEW REVENUE SOURCES FROM LOCAL MARKETS

As is shown in the exhibit below less than one quarter of rural hotels (located in communities of less than 1,000 people) offer the range of services needed to diversify their product base for local customers.

EXHIBIT IX-1
Services profile of Saskatchewan's hotels

Community Size By Number of Taxfilers	% OF RESPONDENTS REPORTING						
	Dining Room	Beverage Room	Cocktail Room	Live Entertainment	Big Screen T.V.	Special Events	Outdoor Patio
0-200	23.4%	100.0%	2.1%	14.9%	17.0%	36.2%	31.9%
201-500	18.2%	97.7%	0%	29.5%	15.9%	31.8%	13.6%
501-1,000	37.9%	96.6%	6.9%	34.5%	31.0%	65.5%	20.7%
1,001-2000	52.4%	100.0%	14.3%	47.6%	47.6%	52.4%	19.0%
2,001-5,000	80.0%	90.0%	10.0%	60.0%	90.0%	90.0%	10.0%
5,001-10,000	40.0%	80.0%	20.0%	60.0%	40.0%	60.0%	0%
10,000 plus	83.3%	91.7%	50.0%	33.3%	66.7%	75.0%	25.0%

Alternative services to beverage rooms such as dining room, cocktail lounge, big screen television and hosting of special events are the kinds of products and diversifications that some hotels are offering. As Exhibit IX-1 shows however, these expanded services are found in more than ten hotels located in larger urban centers.

Exhibit IX-1 shows that hotels which offer additional services such as listing special events and providing a big screen T.V. have a much larger likelihood of generating both higher revenues and higher profits compared to the average hotel. These hotels were respectively 1.4 and 1.7 times more profitable than the average hotel in 1986. Hotels which offer live entertainment were found to generate slightly higher gross revenues but were significantly less profitable than the average for all hotels. The p

EXHIBIT IX-2
Profit/revenue index of special features

	Revenue	Profit
Special events	1.35	1.42
Big screen T.V.	1.24	1.17
Renovations	1.05	1.07
Live entertainment	1.02	(1.44)
Average for all hotels	1.00	1.00

Hotels which made improvement to their dining facilities were found to have higher gross revenues but lower profits than the averge hotel. This is due to the added operating costs of providing dining sessions. This may indicate that the market for separate dining services in rural hotels is insufficient to support these sessions. There is no doubt a good market exists, for the provisions of good food services in licensed beverage rooms however, regulations would need to be changed to allow family dining in these facilities.

Rural hotels will need to diversify the services they offer to both local patrons and tourists in order to improve their financial viability. Based on our findings, rural hotels should develop services which feature food and entertainment. Improved food services should be offered in beverage rooms as opposed to separate dining facilities. Entertainment should include big screen television, good music systems and hosting special events. Offering live entertainment should be carefully considered in terms of the additional expenditures relative to marginal revenues generated.

X

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

- The rural hotel is an important part of smaller communities providing sources of employment, tax revenue and recreation.
- The rural hotel is in the alcohol business.
- The largest component of alcohol revenue is derived from beer sales.
- The alcohol business is declining in Canada and Saskatchewan.
- Rural hotels along with other businesses, depend on a local market which is declining in population.
- Rural hotels need to diversify their product, offering into non-alcoholic revenue sources.
- Because of lifestyle changes, impaired driving laws and price, most alcohol is consumed in the home.
- The major source of competition for rural hotels is home consumption.
- In order to enhance revenue, rural hotels need to capture a larger share of the home consumption market.
- Special occasion sale permits are not a threat to the viability of rural hotels.

Recommendations

This list of recommendations is a synopsis of the study findings. Please refer to the main report for the details of options and analysis for various recommendations.

1. **Rural hotels should concentrate on increasing their penetration of the local market. In general rural hotels must become more market orientated.**

Time frame - Short term, less than one year.

Options

- Rural hotels should offer a full range of banquet and catering services.
- Rural hotels should expand food services using the existing beverage room.
- Rural hotels should offer or sponsor periodic special events such as pool tournaments and sports days.

2. **Provide a wholesale price to licensees for beer.**

Time frame - Short term, should be implemented within one year.

Rationale

- Beer makes up the largest portion of the revenue for rural hotels.
- Close the price gap with liquor stores.

Options

- Consider not passing on the Saskatchewan Liquor Board price increase to all licensees.
- Consider providing a fixed margin (15%) and fixed price and gradually move the off-sale price of beer towards the Saskatchewan Liquor Board.
- Consider providing a wholesale price only to hotels in communities with less than 1,000 people.

3. **Allow Sunday opening.**

Time frame - Short term, should be implemented within one year.

Rationale

- Restaurants are open on Sundays.
- In some rural communities, the hotel beverage room is the only restaurant.
- Other provinces are moving towards Sunday opening.
- Mini bars in rooms already available everyday.

Options

- Allow the local community to set hours and days of operations within broad guidelines established by the province.
- Allow Sunday opening with food for a limited number of Sundays.
- Allow Sunday opening as a regular business day.
- Allow Sunday opening with food service and restricted hours of opening.
- Allow Sunday opening with food service only in hotels in communities with less than 1,000 people.

4. **Develop hospitality training.**

Time frame - Short term, within one year.

Rural hotel owners in conjunction with the Hotel Association of Saskatchewan should develop and participate in management training programs for the hospitality industry. This training should be developed by the proposed Tourism Hospitality Institute.

5. **Control the abuse of special occasion sale permits.**

Time frame - Short term, within one year.

Options

- Allow a limited number of permits to only registered non-profits.
- Overhaul the system of permits when Act is changed.
- Provide licenses for curling clubs and service clubs providing they comply with Saskatchewan Liquor Board regulations.
- Allow only registered non-profits to get a maximum of 3 special occasion permits per annum.

6. **Change the Liquor Consumption Tax.**

Time frame - Medium to long term, should be implemented within the next three to five years.

Rationale

- Close the price gap between licensees and Saskatchewan Liquor Board Stores.
- Liquor Consumption Tax is administered in an uneven fashion (i.e. special occasion permits).

Options

- Consider removing the Liquor Consumption Tax and mark-up the Saskatchewan Liquor Board price by 14% with the result being:
  - A 4% increase on the shelf.
  - No lost revenue.
  - No audit or collection costs.
  - No lost licenses due to non payment.
- Consider excluding rural hoteliers from paying Liquor Consumption Tax through tax rebates and increase the mark-up at Saskatchewan Liquor Board to cover any revenue short fall:
  - Small increase on the shelf.
  - Targeted at most troubled hotels.
  - No lost revenue.
  - Increased administration costs to be calculated and provide rebates.
  - Potential controversy with vendors and other licensees.

7. **Allow hotels to off-sale spirits.**

Time frame - Medium to long term, should be implemented within three to five years.

Options

- Consider allowing the off-sale of spirits after the Saskatchewan Liquor Board Store or vendor closes. Provide a fixed margin and price.
- Consider allowing sales anytime but do not provide a fixed margin and price.
- Consider allowing the off-sale of spirits in hotels located in communities with less than 1,000 people.

Appendix A

EXHIBIT A-1
1986 gross revenues - by community size (in $000's)

# Taxfilers	0-500	501-2,000	2,001-10,000	Over 10,000
Beer	$139,729.80	$199,228.13	$292,572.93	$1,049,995.67
Liquor	50,563.50	62,527.47	133,355.18	233,958.52
Wine	343.04	721.45	1,935.86	14,528.48
Total alcohol	190,636.34	262,477.05	427,863.97	1,298,482.60
Food	23,767.71	61,111.27	127,673.68	501,792.03
Rooms	3,779.07	27,743.71	55,970.86	664,881.53
Other	3,237.17	17,899.11	39,373.11	24,108.08
Total 1986 revenue	$221,329.29	$369,231.14	$650,881.62	$2,489,264.10

EXHIBIT A-2
Average hotel expense breakdown by community size

	0-500	501-2,000	2,001-10,000	Over 10,000
Beer	$60,032.21	$92,935.46	$145,050.99	$ 525,132.22
Liquor & wine	14,183.44	21,620.25	49,776.46	52,094.65
Total alcohol	74,215.65	114,555.70	194,827.46	577,226.87
Food	19,462.27	56,274.92	108,920.00	160,860.72
Salaries	23,308.30	85,977.54	184,126.00	553,714.24
Insurance	4,585.13	9,431.91	10,489.00	15,156.78
Liquor Consumption Tax	15,036.62	29,682.67	68,097.17	90,368.00
Property Tax	2,369.03	8,059.26	26,612.50	68,333.33
Business Tax	556.93	2,743.79	5,916.33	10,440.00
Power & heat	6,160.12	16,003.17	26,429.67	118,687.84
Interest costs	15.060.02	39,346.50	78,586.75	146,927.50
Total 1986 expenses	$160,764.07	$362,075.47	$704,004.88	$1,741,715.10

EXHIBIT A-3
Insurance costs - by community size (1982-1986)

Community size	Taxfilers	1982	1983	1984	1985	1986
% Change from year previous		N/A	-26.7%	+41.2%	+3.7%	=6.1%
0-500		$4,025	$ 2,951	$4,167	$ 4,323	$ 4,585
% Change from year previous		N/A	+12.2%	-3.8%	+12.2%	+48.3%
501-2,000		5,208	5,844	5,619	6,305	9,348
% Change from year previous		N/A	-14.6%	-10.2%	+4.4%	+55.45%
2,001-10,000		8,424	7,191	6,461	6,747	10,489
% Change from year previous		N/A	+2.9%	-16.0%	+21.7%	+46.9%
Over 10,000		9,802	10,084	8,475	10,313	15,157

EXHIBIT A-4
Business tax - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	=0.7%	-46.4%	+2.3%	-29.3%
0-500	$1,426	$1,437	$ 770	$ 788	$ 557
% Change from year previous	N/A	+15.7%	+8.4%	+5.3%	-5.5%
501-2,000	2,198	2,544	2,756	2,903	2,744
% Change from year previous	N/A	+14.1%	+10.4%	+0.9%	+4.8%
2,001-10,000	4,443	5,069	5,597	5,647	5,916
% Change from year previous	N/A	N/A	N/A	N/A	N/A
Over 10,000	N/A	N/A	N/A	N/A	10,440

EXHIBIT A-5
Property tax - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	+0.7%	+7.9%	+9.7%	-10.2%
0-500	$ 2,211	$ 2,228	$ 2,405	$ 2,639	$ 2,369
% Change from year previous	N/A	+22.1%	+0.4%	+14.6%	+0.6%
501-2,000	5,698	6,959	6,989	8,010	8,059
% Change from year previous	N/A	-1.7%	-7.5%	+2.4%	-5.8%
2,001-10,000	30,328	29,799	27,569	28,241	26,613
% Change from year previous	N/A	N/A	N/A	N/A	-7.6%
Over 10,000	N/A	N/A	N/A	73,914	68,333

EXHIBIT A-6
Utilites - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	+4.1%	+5.2%	-0.2%	-1.5%
0-500	$ 5,731	$ 5,965	$ 6,275	$ 6,262	$ 6,170
% Change from year previous	N/A	+7.9%	-2.9%	+4.8%	-1.8%
501-2,000	14,834	16,004	15,545	16,289	16,003
% Change from year previous	N/A	N/A	N/A	+13.9%	-3.7%
2,001-10,000	N/A	N/A	24,102	27,446	26,430
% Change from year previous	N/A	N/A	N/A	N/A	N/A
Over 10,000	N/A	N/A	N/A	N/A	118,688

EXHIBIT A-7
Interest costs - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	-9.3%	+34.3%	-4.4%	-6.3%
0-500	$13,783	$ 12,505	$16,799	$16,065	$ 15,060
% Change from year previous	N/A	N/A	N/A	N/A	N/A
501-2,000	N/A	N/A	N/A	N/A	39,347
% Change from year previous	N/A	+5.7%	-12.6%	-0.09%	-13.8%
2,001-10,000	98,774	104,430	91,270	91,180	78,587
% Change from year previous	N/A	N/A	N/A	N/A	N/A
Over 10,000	N/A	N/A	N/A	N/A	146,928

EXHIBIT A-8
Salaries - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	+1.2%	+5.1%	-17.9%	-3,3%
0-500	$ 27,633	$ 27,956	$ 29,390	$ 24,109	$ 23,308
% Change from year previous	N/A	+9.6%	-5.1%	+6.1%	-20.4%
501-2,000	97,920	107,242	101,765	107,947	85,978
% Change from year previous	N/A	N/A	N/A	+3.1%	+2.6%
2,001-10,000	N/A	N/A	174,204	179,543	184,126
% Change from year previous	N/A	-6.7%	-19.0%	+8.8%	N/A
Over 10,000	381,366	355,858	288,071	313,378	N/A

EXHIBIT A-9
Gross revenue - by community size (1982-1986)

Community size Taxfilers	1982	1983	1984	1985	1986
% Change from year previous	N/A	-0.6%	+5.1%	+0.005%	+3.3%
0-500	$ 205,240	$ 203,830	$ 214,258	$ 214,270	$ 221,329
% Change from year previous	N/A	=5,9%	-9.8%	+2.1%	-16.2%
501-2,000	451,862	478,378	431,451	440,574	369,231
% Change from year previous	N/A	+7.3%	-6.8%	+6.4%	-23.5%
2,001-10,000	799,178	857,664	799,451	850,657	650,882
% Change from year previous	N/A	-0.7%	-4.6%	+12.6%	+28.2%
Over 10,000	1,822,625	1,809,066	1,724,961	1,941,555	2,489,264